Robert J. O'Keefe Commissioner
Darrel L. Peterson Commissioner

In the Matter of the Stipulated Settlement Regarding the Rates of Minnegasco, Inc., Pursuant to Minn. Rules, Parts 7827.0100 to 7827.0600, Relating to Rate Adjustments Due to the Tax Reform Act of 1986	ISSUE DATE: September 23, 1987 DOCKET NO. G-008/M-87-434 ORDER APPROVING STIPULATION

PROCEDURAL HISTORY

On June 26, 1987, Minnegasco, Inc. (Minnegasco or the Company) submitted an agreement to make collections for its federal income tax expense subject to appropriate refund, pursuant to Minn. Rules, part 7827.0300, item E.

On July 31, 1987, Minnegasco submitted a stipulated settlement entered into by the Company, the Minnesota Department of Public Service (DPS), and the Residential Utilities Division of the Office of the Attorney General (RUD-AG).

On August 17, 1987, the Commission issued interrogatories to these parties regarding the stipulated settlement. On August 26, 1987, the parties to the stipulated settlement submitted their responses to the Commission's interrogatories.

On September 9, 1987, the parties to the stipulated settlement were given an opportunity to make oral comments before the Commission. No one spoke in opposition to the stipulation.

FINDINGS AND CONCLUSIONS

The Commission must determine whether the proposed stipulated settlement is in the public interest and ensures that Minnegasco's natural gas rates are just and reasonable in light of the Tax Reform Act of 1986 (the TRA).

Minn. Rules, parts 7827.0100 to 7827.0600, govern rate adjustments due to the TRA. The rules for Commission approval serves the public interest and ensures just and reasonable rates as of July 1, 1987 due to the TRA. The Commission has reviewed the stipulated settlement together with all the supporting documents and oral comments of the parties to determine whether the stipulated settlement ensures just and reasonable rates and is in the public interest.

The Commission finds that Minnegasco has made agreements in the stipulation which are in the public interest. Under the terms of the stipulation, Minnegasco has agreed to reduce its overall rates on and after July 1, 1987 by the annual amount of $2,109,000.

The $2,109,000 reduction in rates was determined by adjusting for several factors. These factors were Minnegasco's 1986 normalized financial data for the effects of the TRA, the 1987 Minnesota tax law changes pursuant to Laws of Minnesota 1987, Chapter 268, and the projected operational changes for Minnegasco from July 1, 1987 through June 30, 1988.

The Commission finds that the effects of the TRA combined with the effects of the 1987 changes in the Minnesota tax law result in a $5,632,000 revenue surplus when incorporated into Minnegasco's 1986 normalized financial data. The projected changes in Minnegasco's operations results in a $3,523,000 reduction in that revenue surplus. Projected changes in operations included changes in the number of customers, changes in Minnegasco's operating and maintenance expense, changes in rate base, and consideration of a rate of return. Combining the effects of all these factors results in a total annual revenue requirement decrease of $2,109,000.

The Commission finds that this term of the stipulation is in the public interest because it adjusts Minnegasco's rates to reflect the reduction in the federal income tax expense due to the TRA. The Commission further finds that the review and consideration given the other factors, such as the Minnesota tax law and projected operational changes, is not intended as a substitute for the more extensive review that would normally be given such issues in a general rate case proceeding.

settlement and assure that the TRA benefits are passed through to Minnegasco's customers in a fair, timely, and administratively efficient manner.

Additionally, the Commission finds that the RUD-AG and the DPS have thoroughly examined the data filed by Minnegasco, and attest that the financial and other data included in the stipulated settlement is sufficiently accurate to support a Commission decision approving the stipulated settlement. The data presented in the stipulation indicates that the projected equity ratio used in the calculations is similar to, and even somewhat less than, the equity ratio authorized in its most recent general rate case. See Minnesota Gas Company, Docket No. G-008/GR-82-249 (March 21, 1983). Moreover, the Commission finds that the 12.59% return on common equity used to project the required return in the stipuation was significantly less than the 14.96% return on equity allowed in Minnegasco's most recent rate case.

Upon review of the financial data and adjustments supporting the stipulated settlement, the Commission finds that overall, the adjustments produce a reasonable result. The ratepayer and shareholder interests are properly balanced by allowing the projected changes in Minnegasco's operations to be offset by the TRA and Minnesota tax law changes. Without considering these offsetting factors, the Company may be in an underearning position. However, approval of the stipulation prevents Minnegasco from reaping an undeserved windfall due to the TRA.

The $2,109,000 of reduced revenue requirement translates into new rates of $0.00195 per hundred cubic feet (Ccf) below rates currently in effect. Under the terms of the stipulation, Minnegasco will file these new rates with the Commission so that the rates will be effective no later than 30 days after this Order becomes final and nonappealable. The Commission finds that this term of the stipulation is in the public interest because it ensures that the reduced rates will go into effect and benefit Minnegasco's customers as soon as practicable.

Minnegasco further agreed under this stipulation to pay a one-time credit to its customers either as a bill credit or by separate check. The Commission finds that a one-time credit is reasonable and ensures that the customers will receive a refund of the amounts overcollected since July 1, 1987.

Finally, in accordance with the stipulation, Minnegasco agreed to voluntarily dismiss its lawsuit pending in the Minnesota Court of Appeals disputing the validity of Minn. Rules, parts 7827.0100 to 7827.0600. See Minnegasco, Inc. v. Minnesota Public Utilities Commission, Docket No. C2-87-1271. The Commission finds that this provision of the stipulation is in the public interest, not because it avoids litigation, but because Minnegasco's customers will receive the benefit of the rules in the form of a rate reduction and refund to recognize the effects of the TRA without further delay.

In view of the obligations undertaken by Minnegasco in this stipulation, the Commission finds that the Company's reduced rates are just and reasonable in light of the TRA. Based upon the above findings, the Commission concludes that the stipulated settlement is in the public interest.

ORDER

1. The stipulated settlement entered into by the Minnesota Department of Public Service, the Residential Utilities Division of the Office of the Attorney General and Minnegasco, Inc, on July 31, 1987 is approved.

2. Within 10 days after this Order is issued and the period for reconsideration has expired, Minnegasco, Inc. shall file with the DPS, and serve on the Commission and the RUD-AG, revised tariff sheets for inclusion in its tariff book reflecting a reduction in all standard tariffed rates of $.00195 per hundred cubic feet. Such rates shall be effective no later than 30 days after this Order is issued and the time for reconsideration has expired.

3. No later than 60 days after this Order is issued and the time for reconsideration has expired, Minnegasco, Inc. shall refund the excess collected with interest at the average prime rate, either as a one-time credit on the bill or by check. The refund shall be based on each customer's actual gas consumption during the period between July 1, 1987, and the date that the new rates in Order Paragraph 2 become effective. Within 30 days of the completion of the refund process, the Company shall file a report with the Commission showing the actual amounts refunded by class and the interest rate applied.

4. Minnegasco, Inc. shall expeditiously dismiss its lawsuit captioned Minnegasco, Inc. v. Minnesota Public Utilities Commission, Minnesota Court of Appeals Docket No. C2-87-1271.

5. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Mary Ellen Hennen
Executive Secretary

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